



CURRENCY

Committee on Financial Services

Michael G. Oxley, Chairman

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Contact: Peggy Peterson at 226-0471

Baker Subcommittee Set to Analyze the Analysts

On Thursday, June 14, 2001, Subcommittee Chairman Richard H. Baker (LA) will convene a hearing entitled, "Analyzing the Analysts: Are Investors Getting Unbiased Research from Wall Street?" at 10 a.m. in Room 2128 Rayburn House Office Building.

"The subcommittee will inquire into the relative degree of erosion in the 'Chinese wall' that has traditionally shielded analysts from the influence of investment banking interests," said Baker. "Of special concern will be whether small, individual, retail investors receive fair and ethical treatment by the new market arrangement, and whether steps need to be taken to rebuild both the barriers that shield analysts from conflicts and the trust of individual investors."

Financial analysts make recommendations to investors while their employing companies are vying for lucrative underwriting business. When taking companies public, the firms which underwrite the securities offering generally make a 7 percent commission. Also, financial analysts often have personal holdings in stocks they analyze and recommend to investors. Too many firms have vague, boilerplate disclosure rules about ownership by the individual analyst and the firm.

Many market observers have concluded that analysts issue positive recommendations in order to boost the value of the shares they hold and are offering for sale. Positive reviews of securities also preserve access to precious market information from the analyzed companies.

Even during the worst of recent volatile markets, only 1 percent of analysts' recommendations was "sell."

Wall Street firms typically make one of four basic recommendations on securities: buy, sell, hold, or accumulate. Hold and accumulate, however, actually mean sell. The categories may be nuanced with adjectives such as strong or neutral.

"You have to ask the question whether some are providing financial analysis or financial cheerleading," House Financial Services Committee Chairman Michael G. Oxley (OH) said. "There's an old saying that's instructive: consider the source. Investors should consider the source of market information, know that it may not be objective, and be aware of the conflicts that may be affecting the analyst."

Witnesses who will present testimony are:

- Thomas A. Bowman, Chartered Financial Analyst, President and Chief Executive Officer, Association of Investment Management and Research
- Scott C. Cleland, Chief Executive Officer, Precursor Group
- Benjamin Mark Cole, Financial Journalist and Author of The Pied Pipers of Wall Street: How Analysts Sell You Down the River
- James Glassman, Resident Fellow, American Enterprise Institute and Host, www.TechCentralStation.com
- Gregg S. Hymowitz, Founding Partner, EnTrust Capital
- Mark E. Lackritz, President, Securities Industry Association
- Damon Silvers, Associate General Counsel, AFL-CIO
- David W. Tice, Portfolio Manager, Prudent Bear Fund, and publisher of the institutional research service "Behind the Numbers"

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